

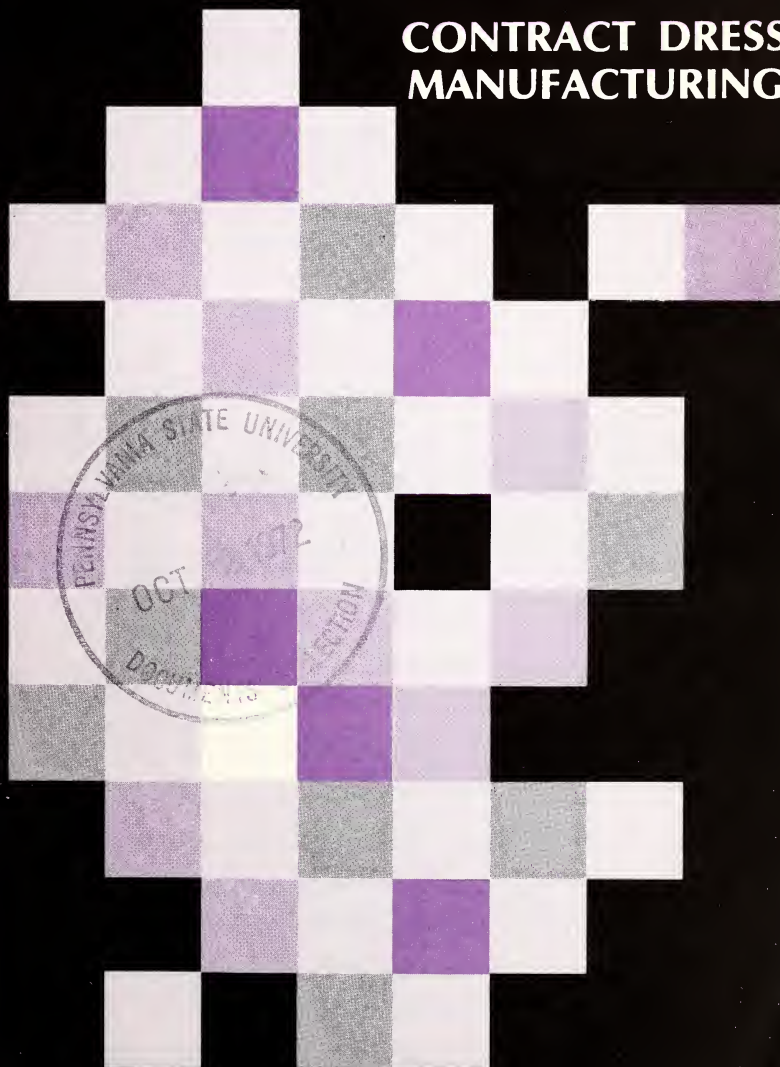
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URBAN BUSINESS PROFILE

**CONTRACT DRESS
MANUFACTURING**



**U.S.
DEPARTMENT
OF
COMMERCE**

Economic
Development
Administration

Office of
Minority Business
Enterprise

URBAN BUSINESS PROFILE

CONTRACT DRESS MANUFACTURING

SIC 2335-Pt.

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ECONOMIC DEVELOPMENT ADMINISTRATION
in cooperation with
OFFICE OF MINORITY BUSINESS ENTERPRISE**

U. S. DEPARTMENT OF COMMERCE
Washington, D.C. 20230

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FOREWORD

As part of a continuing program to provide encouragement and assistance to small business ventures, the U.S. Department of Commerce is issuing a series of Urban Business Profiles.

It is hoped that these reports will serve as a meaningful vehicle to introduce the prospective small urban entrepreneur to selected urban-oriented businesses. More specifically, a judicious use of these profiles could: provide a potential businessman with a better understanding of the opportunities, requirements, and problems associated with particular businesses; provide guidelines on types of information required for location-specific feasibility studies; assist urban development groups in their business creation activities.

A handwritten signature in black ink, reading "Robert A. Podesta". The signature is fluid and cursive, with a large initial 'R' and a stylized 'P'. There is a small mark below the signature.

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OFFICE OF MINORITY BUSINESS ENTERPRISE (OMBE) AFFILIATES

URBAN BUSINESS PROFILES

URBAN BUSINESS PROFILE

Contract Dress Manufacturing

(SIC 2335-Pt.)

I. RECOMMENDATION

Entry into contract dress manufacturing involves relatively little investment, but considerable knowledge of the industry. The principal managerial requirements are production planning and supervision and contacts within the trade to secure business. The availability and productivity of the labor force are the key variables affecting profitability.

Investment requirements are limited because dress manufacturing contractors can generally lease the required machines or purchase them on credit. Manufacturing plant requirements are minimal, and plants can be established in almost any type of vacant building which has heat, light, and plumbing. Since the materials being processed are owned by others, no investment in inventory is required.

The cost of labor is the major cost of doing business, and success or failure will be determined by the ability to achieve a high rate of labor productivity relative to the cost of wages. This can be accomplished by successful recruitment and training of the work force, good labor relations, and highly effective production planning and supervision. Care should be taken to make certain that foremen and supervisors are experienced and capable, since attempts to establish production with inexperienced management, inexperienced supervision, and inexperienced labor have been disastrous. There is, however, no reason why contract dress manufacturing should not be suitable for the minority entrepreneur with some experience in production planning and supervision.

II. DESCRIPTION OF THE INDUSTRY

A. Identification

Women's and misses' outerwear is a segment of a major manufacturing group known as Major Group 23, Apparel and Related Products, a group sometimes known as the needle trades. Women's and Misses' Dresses are classified as Standard Industrial Classification (SIC) 2335, the code which covers establishments primarily engaged in the manufacture of women's, misses' and juniors' dresses, including ensemble dresses, whether sold by the piece or by the dozen. There are further subclassifications by fabric (i.e., cotton, wool, and manmade fabrics) and by price.

The apparel production industry is characterized by three major types of establishments: (1) regular factories known as "manufacturers"; (2) apparel jobbers; and (3) contractors. The manufacturer purchases fabric, employs production workers to cut and sew garments, and sells the finished product. The apparel jobber buys the raw materials, designs samples, and markets the finished product, but he does not manufacture the garments. Instead he arranges with outside factories (contractors) to perform the manufacturing operations. The apparel contractor employs production workers in his own establishment to process materials owned by others (either jobber or manufacturer), makes products to specification, and does not become involved in the sale of the finished garment. In many instances, the jobber will employ his own cutters, and thus the contractor need only sew the various pieces together. In other instances, the contractor will perform both the cutting and sewing operations.

B. Dimensions of the Industry

The needle trades are the second largest employer in nondurable goods manufacturing, surpassed only by the food manufacturing industry. In 1967, more than 1,357,000 persons were employed by the industry. Value added by manufacturing was over \$10 billion. There were more than 26,000 establishments, 48 percent of which had over 20 employees.

Women's and misses' dresses are the largest single type of employer within the Apparel and Related Products Group, with 5,225 establishments in 1967, of which 59 percent had over 20 employees. The total number of employees was 209,900, with value added by manufacturing exceeding \$1.5 billion. The industry has been constantly growing as it keeps pace with the growth in population and the general rise in the national standard of living. Value added increased at a rate of approximately 6 percent annually between 1963 and 1967, and at a rate of over 4 percent annually between 1958 and 1967. Employment has also increased steadily, but at a somewhat slower rate of about 1.5 percent annually between 1958 and 1967.

Within the women's and misses' dresses group, contractors are the most numerous type of employer, having 2,642 establishments in the United States, of which over 77 percent have more than 20 employees. They also account for the largest segment of value added, \$588 million compared to \$523 million for manufacturers. Contractors are not growing at as fast a rate as manufacturers, however, with the value of their product having grown at a rate of only 2 percent annually in the 1963-67 period compared to a manufacturers' value-added growth rate of more than 15 percent annually during the same period.

Most dress manufacturing contractors are located in the New York area, with significant numbers in Pennsylvania, New Jersey, and California. North and South Carolina, Georgia, Florida, Illinois, Texas, Massachusetts, and Connecticut also have noticeable concentrations in the industry. There is a trend in location of contractors toward the South and West. In 1963, 75 percent of all contractors were in the three States in the Mid-Atlantic Region (New York, Pennsylvania, and New Jersey). In 1967 this percentage had dropped to 69 percent. Concentrations of contractors are increasing in and around metropolitan areas such as Dallas, Los Angeles, St. Louis, and Miami.

C. Characteristics of the Industry

1. Organization

The dress manufacturing contractor performs a relatively simple function. He receives textile goods from a jobber or occasionally a manufacturer. This fabric may or may not have already been cut to the desired patterns. He then proceeds to sew the sections together to make a finished garment, presses it, and ships it back to the jobber. The contractor performs a useful function because styling and fashion play such an important part in the overall industry and are so volatile and unpredictable that flexibility in manufacturing is highly desirable. Thus, the jobber traditionally employs a designer to design a seasonal "line" for him. He then makes samples and displays them to the trade. Certain items will turn out to be popular, while others will be ignored. He then must purchase the goods and get relatively quick production of certain numbers of large quantities. Access to a number of contractors greatly increases the jobber's ability to expand or contract his deliveries to meet changing markets.

While there has been a trend among many segments of the industry to go into integrated manufacturing on a larger scale, the traditional roles of jobber and contractor are still highly important, and are expected to remain that way, particularly for higher-priced dresses, where production runs are small and style is all-important.

The jobber pays the contractor for each dress produced. The contractor develops his cost on the basis of his piecework and hourly rates for labor, his overhead, trucking costs, and his profit.

2. Labor

Apparel manufacturing is highly labor intensive; for the contractor, his operations are almost totally labor intensive, with the wages of production workers accounting for almost two-thirds of the total value of contractors' shipments in 1967.

About one-half of all production workers are sewing machine operators, and women represent more than 95 percent of the sewing machine operators. There are two types of systems used in production: (1) the singlehand system of sewing in which the operator performs all or most of the operations needed to produce a finished garment, and (2) the section system, in which each operator performs only one or two of the operations required to complete the garment. As might be expected, singlehand operators get paid more and are usually employed on more expensive garments. Slightly more than half of the sewing machine operators are employed on the singlehand system of sewing.

Other production workers are hand and machine pressers, hand sewers, cutters and markers, final inspectors, thread trimmers, and work distributors.

For all jobs, the ratio of women to men workers varies among areas. For example, women outnumber men 10 to 1 in Miami and in the Wilkes-Barre-Hazleton area in Pennsylvania, while the proportion is only 3 to 1 in New York City.

About 60 percent of the production workers are paid on a piecework basis. Sewing machine operators and pressers are typically paid on this type of incentive program. Time rates usually apply to cutters and markers, inspectors, thread trimmers, and work distributors.

Most workers in the industry are unionized, and nearly all agreements are with the International Ladies Garment Workers' Union. However, there are considerable variations. For example, only one-eighth are unionized in the Los Angeles area and less than one-tenth in Miami and Dallas. However, in New York and Pennsylvania, virtually every shop is unionized.

Average hourly earnings in 1968 ranged from \$3.27 an hour in New York City to \$1.90 an hour in Miami. However, there are a great many variations within areas, because so many of the workers are on incentive plans, with the faster and more skilled operators earning considerably more than those who are slower. Most of the shops in the higher-paying areas use the singlehand system, while most of the shops in the lower-paying areas use the section system.

Most shops work a 35-hour week except in the Los Angeles, Dallas, and Miami areas, where the schedule is 40 hours a week. Paid holidays are common, and employees receive health, welfare, and vacation benefits. Unionized employees are also provided supplementary unemployment benefits and retirement plans.

3. Competition

Competition is very intense, as might be expected where entry into the industry is relatively easy and where there are many firms producing an undifferentiated product.

The major form of competition is in pricing and a difference between competitors of a few cents on the cost of processing can result in the loss of business. Contractors are always trying to cut costs, and the more profitable operators are highly sensitive to cost items.

Contractors are also selected on the basis of quality and service. The jobber wants his contractor to be reasonably convenient and able to produce acceptable work on a reliable basis. During the rush seasons, it is relatively easy for a contractor to get work, because all of the jobbers are hard put to find enough contractors to fill their orders. During the slack season, the jobber will look around very carefully for the best price.

4. Ease of Entry

As indicated above, there are no special licensing requirements or other restrictions barring entry into the business. The individual desiring to establish himself as a contractor need only find some space, order some machines on time, line up some business, and employ a work force. If sufficient business has been lined up in advance, and the manager is capable of producing the work within the quoted price, there is no reason why a new firm should not be profitable from the start.

When starting a plant in an area where the labor force is not experienced, allowance should be made for an additional startup cost to train the labor force. If local job-training resources are not available to assist in training, an average of about \$1,000 per worker should be allowed for training inexperienced employees.

5. Capital Requirements

Capital requirements for a contract dress manufacturing business are relatively small. Listed below are the basic machinery and capital requirements for the smallest size business feasible, as well as for an average shop.

	Smallest	Average
Weekly production	800 medium-priced dresses	2,500 medium-priced dresses
Building size	2,500 square feet	7,000 square feet
Single-needle regular machines	20	55
Special machines	4-6	15
Pressing irons	2	5
Steam boiler	1	1
Racks	6	12

If cutting is done internally, the plant will require a cutting table, spreading machine, two cutting machines, and one drill.

Payments on equipment and fixtures	\$5,000	\$12,000
Rent deposit	300	1,100
Operating capital	4,000	10,000
Miscellaneous supplies	100	200
	\$9,400	\$23,300

Most equipment is purchased from a machinery dealer or from the factory. To start an operation, the best method is to purchase rebuilt machines on a time payment plan. Other capital will have to be secured from personal resources or from a financial institution.

The factory space is usually leased. In some cases, where operations are being started in areas where no factory buildings are available, local development corporations will construct factory buildings and lease them to a manufacturer. This situation is more likely when the proposed tenant is an established business, not a new entry.

6. Profitability

Profitability on sales is very low due to the intense competition and the very keen pressure to keep costs down. Mounting imports are also keeping a downward pressure on prices. The intense unionization of the industry tends to make it difficult for individual entrepreneurs to reap profit from low wage rates. Whatever advantages accrue to businesses in low wage areas are often counterbalanced by high shipping costs, high training costs, or simply increased competition from other new factories established in the low wage areas.

On the other hand, the low capital investment permits a relatively high return on investment. The 1964 profit ratios for all dress manufacturers are shown as follows:

	Upper Quartile	Median	Lower Quartile
	%	%	%
On sales	1.74	0.76	0.16
On total net worth	20.64	11.03	2.33
On net working capital	23.76	12.15	3.20

7. Dependence on Outside Factors

The individual contractor is dependent to a considerable degree on the seasonal factors. Business is at its best from January to May, while fall styles are being produced, and from June to October, while spring clothes are being made. There is relatively little activity during the other months. The seasonal aspect should be kept in mind when starting a new business, so that entry into the business

can coincide with heavy seasonal activity and the opportunity to secure orders from busy jobbers.

To a certain extent, the contractor is also dependent upon how well his jobbers are doing. If he limits his work to a few jobbers, he may find himself without orders if the jobbers happen to guess wrong on styles for a particular season. The likelihood that such an event will happen can be reduced by keeping contract with a large number of jobbers.

The women's dress industry itself tends to fluctuate with styling changes. Although there has been a steady growth over the years, there are rather heavy variations in business from season to season or year to year depending in part on how well new styles are going over in the trade and on the state of the economy in general. These factors are largely out of the control of the contractor, and he must provide for them by conserving his profits during the good seasons to keep him solvent during the poor seasons.

III. BUSINESS OPPORTUNITIES IN THE INDUSTRY

A. Important Factors Affecting Opportunities

1. Labor Supply

The most important factor in locating a factory and insuring its successful operation is the availability of a good labor supply in relationship to its cost. The test of whether a labor supply is good is the ability of the labor force to turn out acceptable quality at a competitive cost. This can sometimes be accomplished with a work force that is relatively low-wage but of only average efficiency, or it can be accomplished with a highly efficient work force receiving higher wages. If the relationship between the skill of the work force and what it costs is favorable, many other factors of operation, such as distance from markets, rent, even in some cases inefficient management, can be overcome.

2. Production Management

The management of production is related to the efficiency of the labor supply, and thus becomes highly important. Key factors are the layout of the plant, production scheduling, training of the labor force, supervision of the work force, and labor relations.

3. Sales and Cost Estimating

The successful contractor must have good contacts within the industry, particularly among jobbers who have confidence in his ability to turn out acceptable quality when promised. The jobber cannot afford to take a chance on unknown firms, because if the goods are unacceptable or are not delivered on time, the entire sale may be lost because the season is missed. Equally important is the ability to do

good cost estimating. A price which is too low will result in a loss on the sale. An overestimated price may lose the sale.

4. Overall Management

The management of a successful dress contractor requires not only the skills of production management, sales ability, and good estimating, but general business skills and care. Management must know how and when to borrow money at the lowest cost and must insure proper maintenance of his machines so that malfunctions do not interrupt production schedules.

5. Cutting Operations

A typical consideration which management must take into account is the decision about whether or not to have a cutting operation. This will depend to some extent on whether his jobbers want to do their own cutting or not. There are a number of advantages to having a capacity to perform the cutting operation: it is somewhat more profitable; the contractor can have better control over quality; and as material can be saved, the contractor can cut extra dresses to sell on his own.

6. Contractors' Associations

Another consideration is whether or not to join a contractors' association. It is generally deemed advisable to do so. These associations are located in all regions of the country, and they can help in obtaining business from jobbers. However, one of their prime functions is to conduct negotiations with the unions on behalf of all contractors.

7. Location

It is best for a contractor to be located at least within overnight trucking distance of the garment center where his customer-jobbers are located. This factor is more important with regard to medium and higher-priced dresses. Lower-priced dresses are not quite as subject to sudden shifts in style, and the savings in labor costs which can be achieved by moving further away from the garment center become more important as the overall price of the garment drops, assuming an adequate supply of labor remains available.

B. Problems and Potentials for Minority Entrepreneurs

1. Problems

A minority entrepreneur should not experience any special problems in the dress manufacturing industry, except in the sense that social contact with jobbers and within the industry may be limited. There are not very many minority jobbers, and the opportunity to develop sales contacts through mutual friendships and at social gatherings will be somewhat limited. This could be a serious handicap, since so many of the people within the industry already know each other. Many contractors have worked previously as cutters or foremen for other contractors and manufacturers; others have been

salesmen within the industry and they have a wide range of contacts. The entrepreneur who does not have access to the "trade" in this respect will have some problems, and these should be carefully considered in advance. One way to overcome them is to get some assurances in advance that help will be forthcoming from someone who is widely regarded in the industry and who can be helpful in opening doors and setting up opportunities to bid on work.

Training the labor force can be a serious problem and one requiring extra capital. Unfortunately, virtually all Federal manpower training programs are unavailable for training operators in apparel manufacturing. Some years ago, the unions successfully convinced the Federal Government that such training programs would give new manufacturers an unfair advantage over those already in existence. While it is possible in some instances to secure State and local help in training a labor force, this type of help tends to be more prevalent in the Southern and rural areas where local development authorities are interested in persuading existing manufacturers to relocate. The prospective new entrepreneur should check carefully with local authorities to see whether or not some assistance would be available with training costs. Lacking such assistance, it may be wiser to rely on using already skilled operators who are available within the local labor force. This will require some preliminary study on the extent of their availability and on their willingness to become employed within the proposed new firm. A high rate of wastage or unacceptable work can be caused by inexperienced operators. This would clearly be detrimental to the new entrepreneur and might be the cause of a business failure.

2. Potentials

On the other hand, the extent to which a minority entrepreneur can develop rapport with the available labor force and secure good productivity from them can be an advantage, particularly in urban areas. Black and Spanish-speaking Americans constitute a highly underemployed labor force in most American cities. A minority entrepreneur who can recruit, train, motivate, and properly supervise a good labor force within the city will have certain advantages in the dress contracting business. It is possible to overestimate this factor, since attaining a productive labor force is more likely to be a function of good managerial skills than it is a function of the racial affinity between the manager and the work force. Nevertheless, it may be reasonable to assume that a given level of competence within management may produce better results with a labor force whose value-systems it understands and can identify with.

A minority entrepreneur may also have access at present to sources of capital and other assistance which might not be available

to other entrepreneurs with equally limited means. For example, the Singer Company is committed to trying to help minority entrepreneurs get a start in the apparel industry, and, under certain conditions, it has made machines available on highly favorable terms and assisted in securing business. Bank loans may be available under guarantees from the Small Business Administration, which is committed to helping in the establishment of minority businesses.

C. Hypothetical Projections

Hypothetical operating projections for the smallest-sized operation considered feasible and for an average operation are shown below. Considerable care should be utilized in using the figures shown in these examples, since individual operations may vary considerably on the basis of local and special factors. The examples shown below should be used as rough guides in formulating projections for a specific project.

	Smallest	Average
Annual sales	\$125,000	\$375,000
Number of employees	30	80
Investment (no cutting)	\$ 7,500	\$ 20,000
Production wages and benefits	79,000	237,000
Materials, containers, trucking, etc.	7,900	23,700
Utilities	1,500	4,000
Rent	3,600	7,000
Overhead, owner's salary, office expenses	20,000	65,000
Interest and depreciation	4,000	8,000
Total expenses	\$123,500	\$364,700
Profit before tax	\$ 1,500	\$ 10,300
Profit percentage on sales	1.2%	2.7%

IV. GUIDANCE IN STARTING A NEW BUSINESS

A prospective entrepreneur who has no experience in the dress contracting business should discard any notions of entering until such experience has been attained. It would be wise to seek employment with an existing contractor or jobber as a production employee or supervisor, or as a salesman to the trade. While the apparel trades are not particularly complex, there are a great many aspects of the business that are really known only to insiders or to those who have had considerable exposure to its operations. A minority individual or group seeking to establish a dress manufacturing business as an economic development project for the inner city would be well advised to find a manager for the new business from among the supervisory or administrative employees of existing firms.

The first step in planning the new business is to determine the general area of location and to visit jobbers in the vicinity to determine the extent to which a new dress contractor would be able to

count on business after establishment. While it is recognized that no commitments are possible in advance, the operator of the new business ought to have some feel for whether or not his services will be welcome among jobbers. Moreover, it is not enough to rely on vague assurances given in an effort to "get rid of a salesman." The potential new entrepreneur should have some feel for the amount of work which might be available, the conditions under which it will become available with regard to cost and time, and other special considerations affecting the market.

In discussions with jobbers, it may be advisable to determine exactly what segment of the business the new firm might specialize in. All other things being equal, if available labor is experienced and the proposed location is in an urban area or within 100 miles of one, specialization in higher quality dresses (above \$10.75 to \$16.75 wholesale) is desirable, since margins are slightly better at this level. However, if the labor force will not be experienced, lower-priced lines should be sought.

After an appraisal of the market and a preliminary examination of the types of financial resources which would be available, a visit should be made to a machinery manufacturer or jobber to determine what machines are available and at what cost. As indicated above, one of the major machinery manufacturers in the country has a program to help minority enterprises, and the availability of this help should be checked. A representative of the chosen machinery manufacturer may also be helpful in determining the amount of space needed and the plant layout.

Steps should next be taken to ascertain the type of factory space available on a lease basis. Most city locations have vacant factory space available, and a trip to an industrial realtor can save time. Considerations to be taken into account in arranging for space include the following:

1. Convenience to labor force; if it is too far from public transportation, many potential workers will not be interested.
2. Truck loading space.
3. Light and heat.
4. Safety and convenience for employees.
5. Total space.
6. Cost.

Arrangements need to be made for an efficient production force. This must include middle-level production supervisors, as well as overall production control. Where the owner is competent in these fields, he can settle for less-experienced help, but if the owner is not going to be able to spend time on the floor supervising production, it is essential that he be able to employ a reliable and experienced person who can.

A decision must be made about the extent to which training will be required for the work force. All other things being equal, it is better for an inexperienced entrepreneur to plan for an experienced labor force. The pitfalls which await the inexperienced entrant into a new business who must deal with an inexperienced work force will guarantee bankruptcy unless sufficient funds are available to compensate for the mistakes. Where an experienced labor force is not available, the inexperienced entrepreneur should start in as small a way as possible and gradually build his own experienced labor force.

The potential entrepreneur should consult with local employment officials and those responsible for local manpower programs to determine the extent of assistance available for training. If a wholly experienced work force cannot be employed and if training subsidies are not available, it would be wise to include sufficient funds for training in the initial startup costs.

The main purpose of training is to give piecework operators sufficient experience with the machines to gain proficiency. If they are too slow, management must generally make up the difference in order to give them the minimum wage. Moreover, careless or inexperienced operators can ruin material, and the contractor will have to compensate the jobber for the loss.

If the proposed new business is to be located in an area where union shops predominate, it would be wise for the new entrant to contact the union for advice on the labor force, methods of recruitment, and leads to experienced supervisors. The International Ladies Garment Workers Union is well-established and has a large array of experts in many facets of the business. The local contractors' association should also be visited and assistance secured as appropriate.

Other assistance can be secured from local organizations offering special programs to help potential minority entrepreneurs. In many cities these organizations are affiliated with the Office of Minority Business Enterprise, U.S. Department of Commerce. Some of these organizations may be able to put the potential entrepreneur in touch with a retired dress manufacturer who is interested in public service. If such a person is available, he can generally be extremely helpful in contacts with jobbers and in production control methods.

A final step prior to operations will be securing capital. If preliminary investigations have been complete, the prospective new entrepreneur should be able to prepare some simple projections indicating the amount of business he expects to do the first year, the amount of equipment he will need, what his costs of operation will be, and how much money he will need to get through the first year. Many of the organizations mentioned above have personnel or access to personnel who can help in this procedure if the entrepreneur himself has secured the necessary basic information.

When capital needs have been estimated and supporting documents carefully prepared, a visit should be made to a local bank which is interested in helping minority businesses or to the local office of the Small Business Administration. There may be other local sources interested in helping minority business ventures, and it may be advisable to check with them in order to secure the best terms.

V. SUMMARY

Dress manufacturing on a contract basis is a volatile business that is highly competitive and labor-intensive. While it is readily entered with comparatively little capital investment, management should have contacts and experience in the field.

Key factors in determining profitability are the productivity of the labor force in relationship to its cost, the production planning and supervision ability of management, and the ability of management to secure business from jobbers.

For potential minority entrepreneurs who have some experience in the apparel fields and who can develop contacts with jobbers, dress manufacturing on a contract basis could prove to be a desirable field in which to establish a new business.

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Trade Association

American Apparel Manufacturers' Association, 2000 K Street, N.W., Washington, D.C. 20006. Founded 1933. Members, 600. Manufacturers of infants', children's, boys', girls', men's and women's wearing apparel with annual volume in excess of 6 billion dollars at wholesale value. Publications: 1) AAMA Apparel Management Letter, monthly; 2) AAMA Newsletter, monthly, and other publications that are related to the apparel industry.

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Greater New Haven Business and
Professional Men's Association
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New Haven, Connecticut 06511
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New York, New York 10010
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